

## **Attachment II**

### **CALIFORNIA PARTNERSHIP FOR LONG-TERM CARE A PROGRAM OF THE STATE DEPARTMENT OF HEALTH SERVICES**

#### **Lifetime Asset Protection Becomes Affordable for Consumers with Moderate Incomes**

##### ***Introduction***

In September 1994, California implemented a major new program to help people with moderate incomes and assets purchase high quality long-term care (LTC) insurance. This program, known as the California Partnership for Long-Term Care (CPLTC), is a partnership between the State of California and select insurance companies that offer policies containing special consumer protections.

This program also provides education to consumers and special support to insurance agents in an effort to help individuals realize their potential risk of needing LTC, and how high quality LTC insurance provides a viable option for funding these costs.

##### ***How Does This Partnership Work?***

While the Partnership policy is attractive to wealthier purchasers who tend to buy lifetime coverage, its special asset protection feature is important to people who can only afford policies of shorter duration. The asset protection feature of this program is its guarantee that the State and Federal Government will provide a financial back stop should the LTC benefits provided by a Partnership policy be insufficient to meet the

needs of the purchaser. Individuals who buy Partnership policies are entitled to keep additional assets equal to the amount their policy pays out, should they ever need to apply for Medi-Cal for health or LTC benefits. In the absence of such protection, single individuals can only retain \$2,000 in non-exempt assets in order to qualify for Medi-Cal benefits. This special asset protection helps assure consumers who can only afford premiums for a one or two-year policy, that should they exhaust their policy benefits they won't have to become impoverished before they can receive Medi-Cal benefits.

*Individuals who purchase Non-Partnership policies and use up their policy benefits must “spend down” their assets to poverty level in order to receive Medi-Cal assistance.*

This special asset protection provision, only available in Partnership policies, provides one dollar of asset protection for each dollar paid out in Partnership policy benefits. This \$-for-\$ protection allows for a variety of product designs ranging from one year to lifetime coverage. The Partnership policies offer everyone high quality benefits and \$-for-\$ asset protection against the costs of LTC, including consumers who can afford lifetime coverage. Most important, however, Partnership policies provide people with moderate incomes the option of choosing a shorter duration policy with the “high quality protection” they need and can afford, and eliminate the fear they might end up in poverty because their LTC costs used up their policy benefits.

The purchase of “high quality protection,” which includes such provisions as automatic built-in inflation protection, adequate daily per diem, a “monthly” rather than a “daily” cap on home and community-based benefits, care management, etc., is a major

objective in the design of the Partnership product. Middle-income individuals with LTC insurance policies without these protections are at serious risk of depleting their policy benefits, becoming impoverished, and having to turn to Medi-Cal to pay their ongoing LTC costs, in spite of having purchased LTC insurance.

The impoverishment protection offered by Partnership policies provides an especially good option for the elderly, who are often less able to afford longer duration high quality policies of four years or more. Here are a few examples on how the Partnership’s special asset protection feature works:

**TABLE 1**  
**California Partnership for Long-Term Care**

	<b>Assets</b>	<b>LTC Insurance Payouts</b>	<b>Medi-Cal Spend Down Requirement</b>
<b>Person A</b>	<b>\$50,000</b>	<b>\$50,000</b>	<b>\$0</b>
<b>Person B</b>	<b>\$200,000</b>	<b>\$500,000</b>	<b>\$0</b>
<b>Person C</b>	<b>\$1,000,000</b>	<b>\$500,000</b>	<b>\$500,000</b>
<b>Person D</b>	<b>\$200,000</b>	<b>\$0</b>	<b>\$200,000</b>

In Table 1 Person A is an unmarried man with \$50,000 of savings that would have to be “spent down” to \$2,000 to qualify for Medi-Cal. Without LTC insurance, this person could quickly wipe out his savings should LTC be required. Person A, however,

purchased a Partnership plan that would pay out \$50,000 of benefits, the average costs of a nursing home in his community for a year. Person A uses up all \$50,000 of insurance benefits and still needs nursing home care. In applying for Medi-Cal, Person A shows the eligibility worker a form issued by his insurance company indicating a total of \$50,000 of Partnership insurance benefits were paid out. Medi-Cal will allow Person A to keep \$50,000 in additional savings and still qualify for Medi-Cal. Person A is in a nursing home for a year and a half after applying for Medi-Cal, during which time Medi-Cal paid out \$40,000 worth of claims for LTC and other medical costs. At the time of Person A's death, Medi-Cal begins action to collect from his estate. However, once again, Medi-Cal recognizes that Person A received \$50,000 of Partnership insurance benefits, which protected an equal amount of his estate against Medi-Cal estate collection. Person A is able to pass on \$50,000 in inheritance to his heirs.

Person B in Table 1 has \$200,000 of savings and chose to purchase a Partnership policy that would pay out \$200,000 worth of benefits, about four years of today's nursing home costs in Person B's community. Unfortunately, Person B ended up receiving services in her home for a year before spending the last 7 years of her life in a nursing home. The policy benefits of \$200,000 were used up after about 6 years. When she applied for Medi-Cal she was able to keep an additional \$200,000 of savings, and this amount was protected from Medi-Cal recovery in her estate at the time of her death. The money was used to provide for her granddaughter's college education.

Person C anticipated having assets of \$1,000,000 by the time she might need LTC, but chose to protect only a portion of her assets by purchasing a Partnership policy that would pay out \$200,000 in benefits. Person C did not need her policy benefits for about 20 years after she purchased the policy. *Because of the automatic inflation protection built into the Partnership policy, both the value of the Partnership benefits and the amount of asset protection had grown to \$500,000 by the time she went into a nursing home*, where she remained for four years before her policy was exhausted. Person C was allowed to keep \$500,000 of additional assets at the time she qualified for Medi-Cal. In addition, at the time she passed away Medi-Cal exempted from recovery \$500,000 of her estate.

Person D in the chart represents an individual who either did not purchase LTC insurance *or bought a non-Partnership policy*. Person D ended up needing to apply for Medi-Cal to pay his ongoing nursing home costs. However, he was required to “spend down” his non-exempt assets to only \$2,000 before becoming eligible for Medi-Cal. His home was considered “exempt” property and was disregarded for the purpose of qualifying for Medi-Cal. When he died Medi-Cal placed a lien against his home, in order to recover the value of the Medi-Cal claims paid during the time he was in the nursing home.

*To really appreciate the above examples, it is important to understand the basics of how Medi-Cal eligibility and estate recovery works. Under current law, \$2,000 of assets is disregarded as “exempt property” in determining a single person’s eligibility*

*for Medi-Cal. The Medi-Cal applicant's residence can also be disregarded, as well as one car and a limited number of other assets. Additional assets can be retained if an individual is in a nursing home and his or her spouse is living in the community. (It is important to understand, however, that less than 11% of persons on Medi-Cal in nursing homes are married). The asset protection provided by the Partnership is in addition to any other assets Medi-Cal allows a person to keep and still qualify for Medi-Cal.*

***What Other Policy Provisions are Unique to Partnership products?***

While the Partnership policy offers excellent protection for everyone, it is specifically designed for individuals with moderate incomes who are unlikely to be able to afford significant rate increases, or out-of-pocket expenses at the time they need LTC benefits. The following provisions are, therefore, included in all Partnership policies:

- 1) Required inflation protection is set at 5% compounded annually. Persons 70 years of age or older have a choice between a 5% compound or a 5% simple annual inflation adjustment. This inflation protection not only helps minimize out of pocket expenses due to inflation, but also proportionately increases the level of asset protection.
- 2) Policies can not be sold that provide less than 70% of the average daily nursing home costs in the State. The minimum nursing home daily amount for Calendar Year 2003 was \$110 a day.

- 3) The home and community-based care benefit in the Partnership Comprehensive policy is capped as a “monthly” rather than a “daily” benefit. As an example, a policyholder buys a Comprehensive Policy with a home and community-based care benefit of \$55 a day. A person needing home care seldom uses a fixed amount per day. With a “monthly” cap, the policyholder has a \$1,650 bucket of money to be used for home care (\$55 X 30 days in the month). This provides a flexible way for the policyholder to combine the availability of informal care with formal care, and reduce or avoid out of pocket expenses while maximizing the policy benefits.
- 4) Care Management/Care Coordination provides all policyholders with the benefit of having a qualified licensed health care professional evaluate their need for care, and, with the policy holders input, develop a plan of care which lists informal and formal services necessary to help them maintain as much independence in the most efficient way possible. All treatment plans must include a non-inclusive list of providers in the community appropriate to provide the necessary care. Policyholders can also choose to have the care manager/care coordinator help them access the care and monitor the appropriateness of that care. This benefit helps maximize the value of the policy benefits, as well as provide assistance to an individual and most often a family during a time of crisis. Care

Management Provider Agencies providing services to Partnership policyholders must be approved by the Partnership to assure they have staff with the appropriate experience and credentials, as well as methods to assure the quality of their services. The State of California has no regulatory oversight of care management organizations other than those that provide services to Partnership policyholders.

- 5) Prior to 2002 the Department of Insurance (DOI) policy approval process only included the review of policy premiums and actuarial memorandums for Partnership policies. Subsequently, the DOI reviews all policies' premiums and actuarial memorandums. There are requirements that any request for Partnership rate increases be based on the entire pool of Partnership purchasers, and be subject to a rate cap. Partnership regulations provide for the DOI to disapprove a Partnership policy filing by a company with a history of rate increases.
- 6) Provisions related to protecting the policyholder against possible lapse were championed by the Partnership, and are now required in all policies being marketed in California.
- 7) All Partnership policies have the benefit of a stringent review by expert staff at the Department of Health Services (DHS). In addition, a review is completed on all policies by the DOI to help assure provisions are



accurately described in a way that is most understandable by the consumer.

***What Else is Unique?***

- 1) The DHS requires agents to take specific continuing education (CE) training to be authorized to market Partnership policies. The training consists of an initial 8 hours of classroom CE on the Partnership, and thereafter an additional 8 hours of classroom CE on the Partnership every two-year license approval period. Regulations provide that agents who fail to comply with this CE requirement shall not sell Partnership policies, and companies are required to enforce this requirement or jeopardize their relationship with the CPLTC. Also, Partnership course instructors must pass an exam before they are allowed to teach.
  
- 2) The DHS provides services to help agents expand their understanding of the Partnership product, the importance of these quality consumer protections, and ways they can better serve their clients. These services include agent seminars, educational material, agent flyers and newsletters, and a comprehensive Website ([www.dhs.ca.gov/cpltc](http://www.dhs.ca.gov/cpltc)).

- 3) DHS collaborates with its issuer partners in finding ways to reach out to Californians with information that will help them become aware of the risks of needing LTC, the benefits of LTC insurance, and the availability of the Partnership policy. Some of the current consumer education and outreach efforts include a consumer Wwebsite, consumer education videos, educational pamphlets, Public Service Announcements on radio and television, participation on radio and television talk shows and other media events, print advertising, publication of articles in magazines and newspapers, participation in health forums, and presentations to consumer groups.

***What Types of Coverage is Offered:***

Two types of Partnership policies are available: a “Nursing Facility and Residential Care Facility Only” Policy and a “Comprehensive” Policy. The comprehensive policy covers care in a nursing home and residential care facility, as well as the full range of home and community care services. All Partnership Policies are Tax Qualified.

***Benefits and Limitations:***

While Partnership policies, like all private LTC insurance policies, are transportable throughout the United States, if a policyholder exhausts the policy benefits

or otherwise needs to apply for Medicaid benefits for LTC, he or she will have to return to California in order to take advantage of the special Medi-Cal asset protection.

*Partnership policies are only available to California residents.*

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